

Huatai Research

29 May 2018

Strategy | China

Huatai Best Ideas – June 2018

Multiple concerns still weigh on HK market in near term

Despite temporary lowering of trade tensions between China and the US, the market reaction remains chilly. The HSI and HSCEI indices slid by 1.05% and 3.02%, respectively, in May. Along with rising overseas bond yield, strong USD, weak HKD, and Sino-US trade tensions, domestic credit default cases have recently emerged as a new concern.

Opportunities could emerge in 2H18

While turbulence and weak sentiment are unlikely to disappear in June, we still see opportunities in the second half of 2018 (see [Road Ahead 2H18: navigating through the uncertainties, published on 25 May](#) for details), on the back of: 1) continued growth quality improvement in non-financial sectors, which is our core thesis for staying upbeat on the H-share market this year; 2) lowered tail risks thanks to financial deleveraging; 3) solid consumption outlook benefiting from structural changes in household spending and favorable government policies; and 4) deep valuation correction for sectors such as auto, semiconductor, software, consumer staples, insurance and real estate. Entering 2H18, we are optimistic on broad consumption areas, banks, energy, and select bottom-up ideas which combine strong growth potential and attractive valuations. We are relatively cautious on small companies with high leverage due to potentially rapid rise in financing costs, and are prudent on new economy names due to large pipeline of new listing amid sluggish market sentiment.

Huatai Best Ideas for June 2018

For Huatai Best Ideas in June, we recommend Anton Oilfield Services, CSPC Pharma, BCA, Tencent, CITIC Bank, Hua Hong Semiconductor, CR Cement and Conch Venture.

Risks to our view

1) Weak sentiment and too-tight liquidity condition of domestic investors leading to massive panic selling in Hong Kong market; and 2) contagious risks of credit default cases weighing on investor sentiment and pushing financing costs up further.

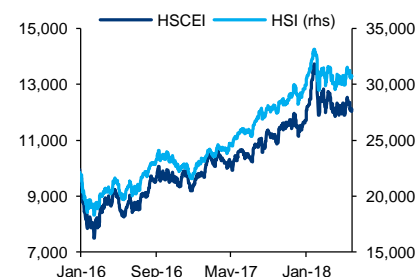
Cheng LV Strategist	+86 21 2897 2057 lvcheng@htsc.com
Hanzhi DING Analyst	+852 3658 6058 dinghanzhi@htsc.com
Wenrui YU Analyst	+86 21 2897 2218 yuwenrui@htsc.com
Wen DAI Analyst	+86 21 2897 2078 daiwen@htsc.com
Zhixuan LIN Analyst	+86 21 2897 2090 zhixuan.lin@htsc.com
Saiyi HE Analyst	+852 3658 6236 hesaiyi@htsc.com
Shujin CHEN, CFA Analyst	+852 3658 6231 chenshujin@htsc.com
Ye LIU Analyst	+86 21 3847 6072 liuye@htsc.com
Bruce WANG Analyst	+86 21 2897 2099 bruce.wang@htsc.com
Jie GONG Analyst	+86 21 2897 2097 gongjie@htsc.com

Huatai Best Ideas

Company	Code	TP (HKD)	Rating
Anton Oil	3337 HK	1.80	BUY
CSPC Pharma	1093 HK	29.00	BUY
BCA	1114 HK	25.00	BUY
Tencent	700 HK	498.50	BUY
CITIC Bank	998 HK	6.66	BUY
Hua Hong Semi	1347 HK	21.80	BUY
CR Cement	1313 HK	11.00	BUY
Conch Venture	586 HK	27.90	BUY

Source: Huatai HK Research estimates

Index Price Performance



Source: Bloomberg, Huatai HK Research

Fig.1. Huatai Best Ideas: June 2018

Ticker	Name	Industry Group	Rating	Total mkt cap (USDmn)	Price (HKD)	Target price (HKD)	2018E PE (x)	2018E EPS growth (%)	2018E PB (x)	2018E ROE (%)	2018E div yield (%)
3337 HK	Anton Oilfield Services	Energy	BUY	431	1.27	1.80	17.9	158.5	1.0	6.2	1.7
1093 HK	CSPC Pharma	Pharma	BUY	20,730	26.05	29.00	42.0	35.8	8.4	22.2	0.7
1114 HK	BCA	Auto	BUY	9,093	14.14	25.00	7.5	77.3	1.8	26.2	3.2
700 HK	Tencent	Software	BUY	490,859	405.20	498.50	38.4	14.4	10.2	30.0	-
998 HK	CITIC Bank	Banks	BUY	46,190	5.77	6.66	5.1	10.4	0.6	11.5	6.3
1347 HK	Hua Hong Semi	Semiconductor	BUY	2,421	18.26	21.80	15.3	9.9	1.3	9.1	1.9
1313 HK	CR Cement	Materials	BUY	7,844	9.42	11.00	8.0	111.4	1.7	23.3	6.1
586 HK	Conch Venture	Capital Goods	BUY	6,142	26.70	27.90	8.8	31.1	1.6	20.0	2.3

Note: data as at 28 May market close

Source: FactSet, Huatai HK Research estimates

Recommendation rationales

Anton Oilfield Services (3337 HK): 1) we prefer onshore servicers to offshore as we believe there is severe oversupply in the global offshore rig market, which should take over 2-3 years to resolve, considering that there is a large volume of undelivered and uncontracted jackups and semi-subs lying in various Chinese shipyards; and 2) Anton is our top pick among onshore oil servicers, driven by strong market share gain in the Iraqi market and elevated capex in shale gas by PetroChina and Sinopec.

CSPC Pharmaceutical Group (1093 HK): we look into over 40% NP growth in 2018E, given: 1) NBP's further penetration in prefecture-level cities and Xuanning's accelerated academic promotion; 2) oncology segment is expected to double sales in 2018E, given sales team expansion and albumin bound paclitaxel's sales boom (RMB200-300mn sales in 2018E); and 3) decent R&D pipeline, with Xuanning and Amphotericin B to submit NDA in 2018, clopidogrel slated for launch in 3Q18, and potential collaboration for PD-1 (as a combination with albumin bound paclitaxel).

Brilliance China Automotive (1114 HK): 1) major beneficiary of consumption upgrade and strong advance of premium brands in the China market; 2) high visibility of sales growth in 2018E-2019E based on strong model cycle; 3) new X3 to be domestically produced and launched in June, which will boost sales and margin; 4) cost savings from tariff cut on imported auto parts (over 50% of parts imported); and 5) worries about market opening measures overdone; attractive valuation now.

Tencent Holdings Ltd (700 HK): 1) high revenue growth supported by its mobile games, advertising and new businesses (cloud and payment related business); 2) comprehensive online entertainment and social networking ecosystem laying foundation for long-term growth and 3) we believe Tencent still has high operating leverage to support new business growth and to continue to deliver margin expansion.

China CITIC Bank (998 HK): 1) reduced high cost interbank liabilities and some low-yield investments in 2017, which is positive for NIM expansion in 2018; 2) 'kitchen sinking' in 2017 (shrinking balance sheet, strengthening NPL recognition) creating low base for profit growth in 2018; 3) ROE improved year on year in 1Q18, and we expect ROE turnaround in 2018; 4) H-share valuation only at 0.6x 2018E PB, lower than peer average of 0.8x 2018E PB; A-H discount 30%.

Hua Hong Semiconductor (1347 HK): we favor Hua Hong for: 1) its good track record; 2) competitive edge based on clear positioning in advanced technology; 3) customized solutions; and 4) further upside potential in both revenue and earnings growth; we believe Hua Hong should be revalued with a greater premium over its domestic peers.

China Resources Cement (1313 HK): 1) the south China market has been performing strongly this year, with strong fundamentals supported by steady demand growth, much less inflow supply from other provinces, well-conditioned industry coordination and less rainfall; 2) the market has not fully realized the strong earnings CR Cement can achieve this year, with Bloomberg consensus still 18% below our estimate; 3) the Greater Bay Area plan is about to roll out, and is likely to catch more attention and trigger thematic buy; 76% of CR Cement's sales volume is from the south China market (Guangdong, Guangxi and Hainan)

China Conch Venture (586 HK): 1) industrial solid waste and hazardous waste business undergoing rapid expansion, with treatment capacity expanding from 500ktpa in 2017 to 1,400ktpa in 2018E; 2) the first solid and hazardous waste project in cooperation with Conch Cement is in operation under positive conditions, laying solid ground for ramp-up of more projects going forward; 3) 'Yangtze River Clean Act 2018' has received considerably more attention from the government on previously concealed waste and insufficient treatment capacity, and is likely to lead to faster project implementation and higher treatment fees.

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Unit 5808-12, 58/F, The Center, 99 Queens Road Central, Central, HONG KONG

Tel: +852 3658 6000

Fax: +852 2169 0770

Email: research@htsc.com

<http://www.htsc.com.hk/>